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Chapter 4

Ethics and Corporate Responsibility

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Learning Objectives

LO 1 Describe how different ethical perspectives guide managerial decision making.

LO 2 Identify the ethics-related issues and laws facing managers.

LO 3 Explain how managers influence their ethics environment.

LO 4 Outline the process for making ethical decisions.

LO 5 Summarize the important issues surrounding corporate social responsibility.

LO 6 Discuss the growing importance of managing the natural environment.

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It’s a Big Issue

Ethics

- The moral principles and standards that guide the behavior of an individual or group.
- Unethical behavior happens everywhere; it has become a part of everyday life.

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It’s a Personal Issue 1

Are We Good Decision Makers, Ethical, and Unbiased?

Most people have unconscious biases that favor themselves and their own group.

Managers often:

- Hire people who are like them.
- Think they are immune to conflicts of interest.
- Take more credit than they deserve.
- Blame others when they deserve some blame themselves.

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It’s a Personal Issue 2

Is it okay to do a little online shopping during your lunch hour or to check scores during March Madness?

Is it okay to stream videos for your own and your coworkers’ enjoyment or to take a two-hour lunch to locate the best deal on a big-screen TV?

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Your Perspectives Shape Your Ethics

1

Ethical Issue

- Situation, problem, or opportunity in which one must choose among several actions that must be evaluated as morally right or wrong.

Business Ethics

- Moral principles and standards that guide behavior in the business world.

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Your Perspectives Shape Your Ethics

2

Moral Philosophy

- Principles, rules, and values people use in deciding what is right or wrong.

Major Ethical Systems

1. Universalism.
2. Egoism.
3. Utilitarianism.
4. Relativism.
5. Virtue ethics.

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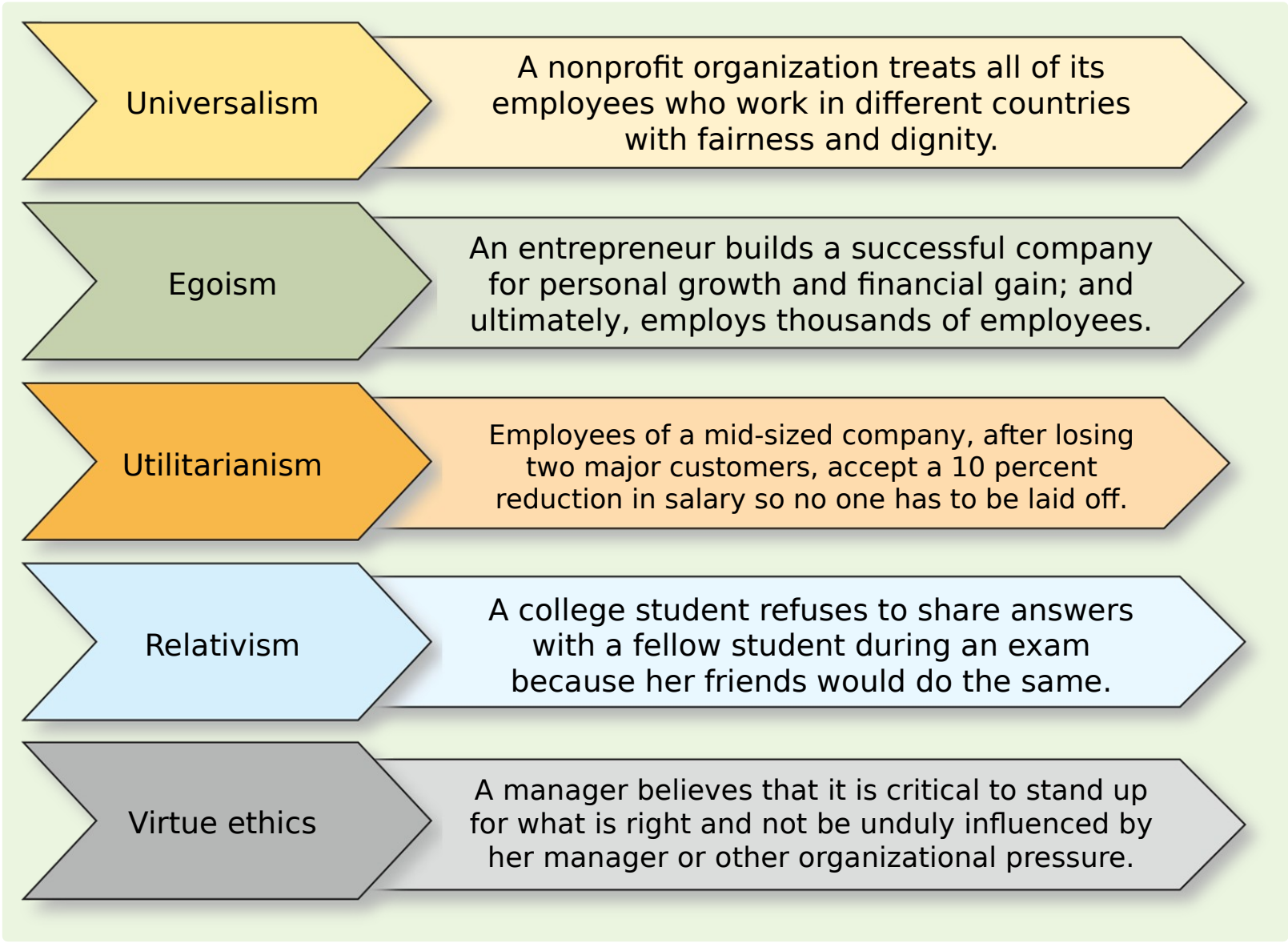
Exhibit 4.2


Universalism
A nonprofit organization treats all of its employees who work in different countries with fairness and dignity.
Egoism
An entrepreneur builds a successful company for personal growth and financial gain; and ultimately, employs thousands of employees.
Utilitarianism
Employees of a mid-sized company, after losing two major customers, accept a 10 percent reduction in salary so no one has to be laid off.
Relativism
A college student refuses to share answers with a fellow student during an exam because her friends would do the same.
Virtue ethics
A manager believes that it is critical to stand up for what is right and not be unduly influenced by her manager or other organizational pressure.

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Major Ethical Systems 1

Universalism

States that all people should uphold certain values that society needs to function.

Caux Principles for Business.

- Ethical principles established by international executives based in Caux, Switzerland, in collaboration with business leaders from Japan, Europe, and the United States.
- *Kyosei:* living and working together for the common good, allowing cooperation and mutual prosperity to coexist with healthy and fair competition.
- *Human dignity:* concerns the value of each person as an end, not a means, to the fulfillment of others' purposes.

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Major Ethical Systems 2

Egoism

- Holds that individual self-interest is the actual motive of all conscious action.
- Proponents say if everyone follows this system, well-being of society will increase.
- Similar to Adam Smith's concept of the invisible hand in business.

Utilitarianism

States that the greatest good for the greatest number should be the overriding concern of decision makers.

- Are decisions rational?
- Do subjectivity and egoism play a role?

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Major Ethical Systems 3

Relativism

- Bases ethical behavior on the opinions and behaviors of relevant other people.
- Acknowledges the existence of different ethical viewpoints.
- Role of cultural norms must be considered.

Virtue Ethics

- States that what is moral comes from what a mature person with "good" moral character would deem right.
- Society's rules provide a moral minimum; moral individuals apply their personal virtues.
- **Kohlberg's model of cognitive moral development.**

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Exhibit 4.3: Kohlberg's Stages of Moral Development

Preconventional stage	• Make decisions based on immediate self-interest. • Example: You take some office supplies home from work because you need them and do not want to pay for them.
Conventional stage	• Make decisions that conform to expectations of groups and institutions like family, peers, and society. • Example: You think about taking the office supplies home, but decide against it because it would not look right.
Principled stage	• Make decisions based on self-chosen ethical principles. • Example: You do not consider taking the office supplies from work because you believe that would be wrong.

Source: Adapted from L. Kohlberg, "Moral Stages and Moralization: The Cognitive-Development Approach," in T. Lickona (ed.), *Moral Development and Behavior Theory, Research, and Social Issues* (New York: Holt, Rinehart & Winston, 1976), pp. 31–53.

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Business Ethics Matter

Workplace Ethics

- Perception that business leaders use illegal means to gain competitive advantage, increase profits, or improve their personal positions.
- Little ethical respect for top executives.
- If ethical behavior is unchecked, it may spread and create a toxic work environment.

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Ethical Dilemmas

Complex Issues

- Brands.
- CEO pay.
- Commercialism in schools.
- Religion at work.
- Sweatshops.
- Wages.

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Ethics and the Law

Sarbanes-Oxley (SOX) Act

- An act that established strict accounting and reporting rules to make senior managers more accountable and to improve and maintain investor confidence.

Exhibit 4.4: Steps to Meet SOX Guidelines

- Establish written standards of ethical conduct and controls for enforcing them.
- Assign responsibility to top managers to ensure that the program is working as intended.
- Exclude anyone who violates the standards from holding management positions.
- Provide training in ethics to all employees and monitor compliance.
- Give employees incentives for complying and consequences for violating the standards.
- Respond with consequences and more preventive measures if criminal conduct occurs.

Sources: "Staying on Course: A Guide for Audit Committees," Ernst & Young Center for Board Matters, www.ey.com, accessed April 15, 2016; and "2010 Report to the Nations on Occupational Fraud and Abuse," Association of Certified Fraud Examiners, www.acfe.com/.

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The Ethical Climate Influences Employees

Ethical Climate

In an organization, the processes by which decisions are evaluated and made on basis of right and wrong.

Often reveals company culture.

Maintaining an ethical climate is especially challenging for organizations with international activities.

- Different cultures and countries may have different standards of behavior.

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Danger Signs

1. Excessive emphasis on short-term revenues over longer-term considerations.
2. Failure to establish a written code of ethics.
3. A desire for simple, “quick fix” solutions to ethical problems.
4. An unwillingness to take an ethical stand that may impose financial costs.
5. Viewing ethics solely as a legal issue or a public relations tool.
6. Lack of clear procedures for handling ethical problems.
7. Response to the demands of shareholders at the expense of other constituencies.

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Managers Shape (Un) Ethical Behavior

Ethical Leadership

- **Ethical leaders** are both personally moral and a moral manager.
- Societal attitudes toward moral business lapses vary across cultures.

Ethics Codes

- Sarbanes-Oxley Act requires that public companies periodically disclose whether they have adopted a code of ethics for senior financial officers.
- Address employee conduct, community and environment, shareholders, customers, suppliers and contractors, political activity, and technology.

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Ethics Programs

Compliance-Based Ethics Programs

- Company mechanisms typically designed by corporate counsel to prevent, detect, and punish legal violations.
- Increased surveillance and controls.

Integrity-Based Ethics Programs

- Company mechanisms designed to instill in people a personal responsibility for ethical behavior.
- Self-governance through guiding principles.

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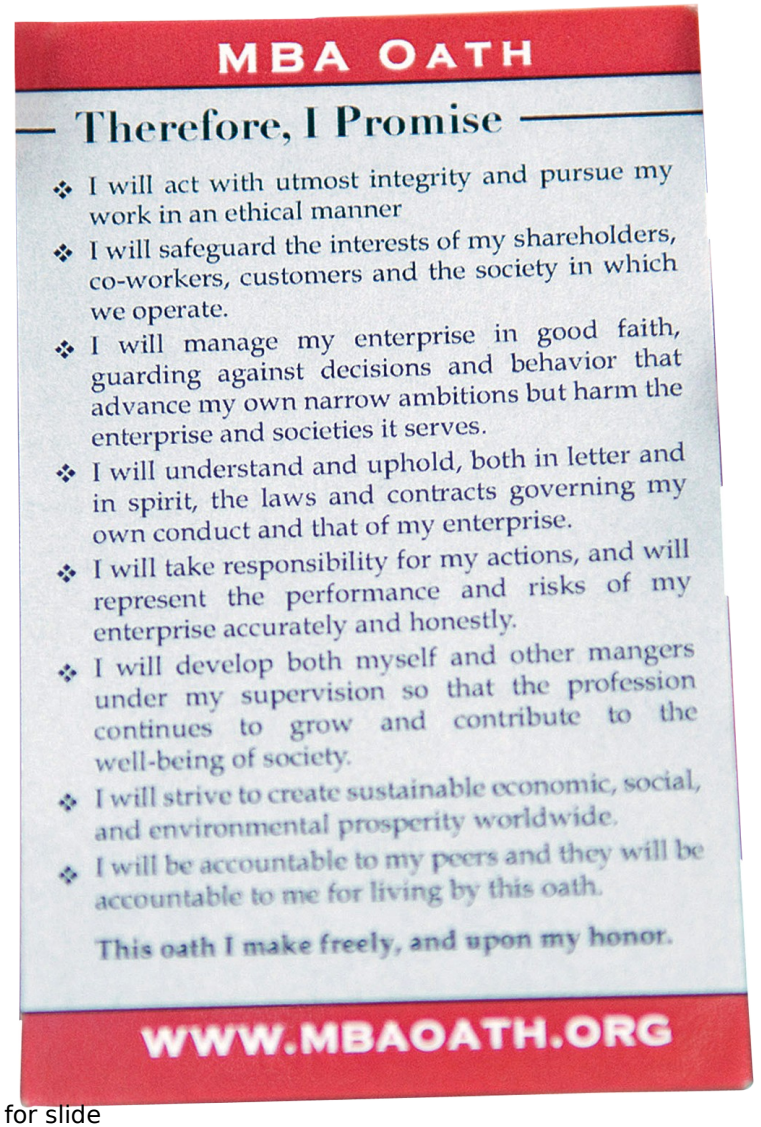
The MBA Oath

The oath signals that graduating MBA students are committed to applying ethics and integrity in all future managerial and leadership endeavors.


MBA OATH
Therefore, I Promise
I will act with utmost integrity and pursue my work in an ethical manner
I will safeguard the interests of my shareholders, co-workers, customers and the society in which we operate.
I will manage my enterprise in good faith, guarding against decisions and behavior that advance my own narrow ambitions but harm the enterprise and societies it serves.
I will understand and uphold, both in letter and in spirit, the laws and contracts governing my own conduct and that of my enterprise.
I will take responsibility for my actions, and will represent the performance and risks of my enterprise accurately and honestly.
I will develop both myself and other mangers under my supervision so that the profession continues to grow and contribute to the well-being of society.
I will strive to create sustainable economic, social, and environmental prosperity worldwide.
I will be accountable to my peers and they will be accountable to me for living by this oath.
This oath I make freely, and upon my honor.
WWW.MBAOATH.ORG

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JODI HILTON/The New York Times/Redux

You Can Learn to Make Ethical Decisions

Making Ethical Decisions

1. Moral awareness.
   - Realizing the issue has ethical implications.
2. Moral judgment.
   - Knowing what actions are morally defensible.
3. Moral character.
   - The strength and persistence to act in accordance with your ethics despite the challenges.

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The Ethical Decision-Making Process

Resolving Ethical Problems

Understand moral standards.

Identify and diagnose problems.

Generate and evaluate alternatives; consider moral impacts.

- Which people do they benefit and harm?
- Who can exercise their rights and whose rights are denied?

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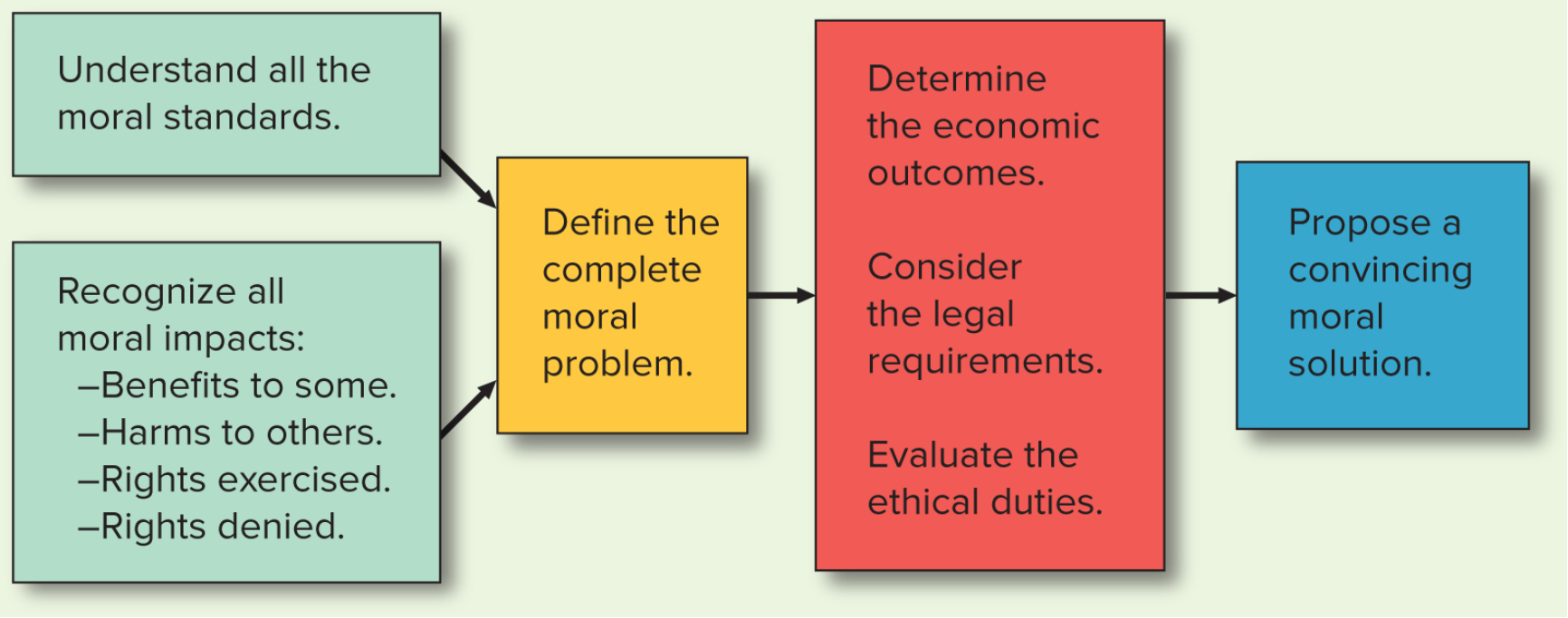
Exhibit 4.5: A Process for Ethical Decision Making



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Source: L. T. Hosmer, *The Ethics of Management*, 4th ed. (New York: McGraw Hill/Irwin, 2003), p. 32.

Outcomes of Unethical Decisions

Criteria for Evaluation

- You would be proud to see the action widely reported in newspapers.
- It would build a sense of community among those involved.
- It would generate the greatest social good.
- You would be willing to see others take the same action when you might be the victim.
- It doesn’t harm the “least among us.”
- It doesn’t interfere with the right of others to develop their skills to the fullest.

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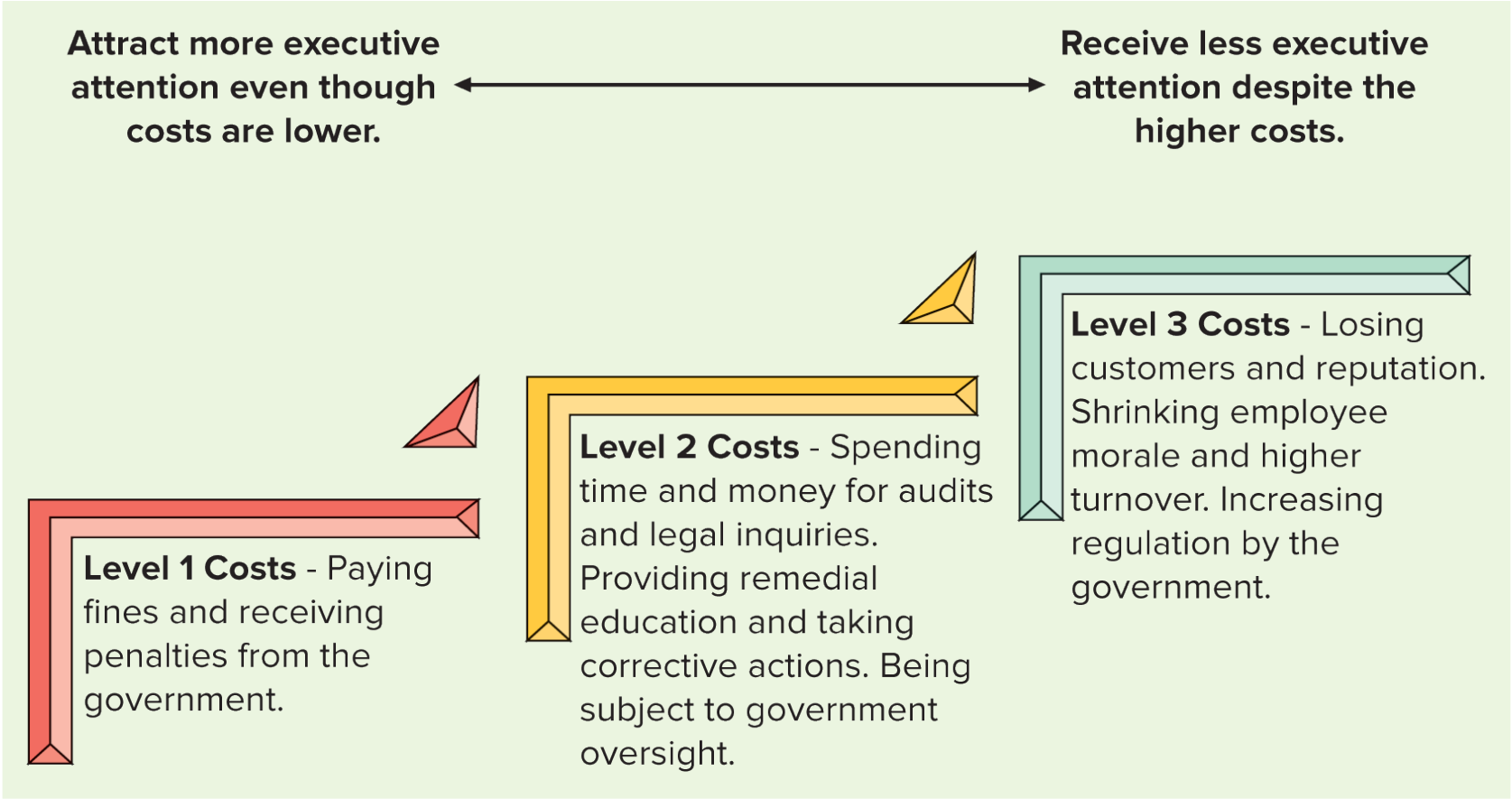
Exhibit 4.6: The Business Costs of Ethical Failure


Attract more executive attention even though costs are lower.
Receive less executive attention despite the higher costs.
Level 1 Costs - Paying fines and receiving penalties from the government.
Level 2 Costs - Spending time and money for audits and legal inquiries. Providing remedial education and taking corrective actions. Being subject to government oversight.
Level 3 Costs - Losing customers and reputation. Shrinking employee morale and higher turnover. Increasing regulation by the government.

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Source: T. Thomas, J. Schermerhorn Jr., and J. Dienhart, "Strategic Leadership of Ethical Behavior in Business," *Academy of Management Executive*, May 2004, p. 58.

Ethics Requires Courage

Behaving Ethically

- Requires not just moral awareness and moral judgment, but also moral character.
- Often hard to do the right thing.
- Companies with high-quality ethics and compliance initiatives report fewer ethical violations.
- Under the Dodd-Frank Act, reporting systems should give access to customers, suppliers, shareholders, associates of employees, and others.

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Crossing the Ethical Line

Pepsi managers made an ethical decision by reporting an executive secretary from Coca-Cola Company who offered them confidential documents.

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Corporate Social Responsibility

Stewardship

Contributing to the long-term welfare of others.

- Should a business be responsible for social concerns?
- Do social concerns affect a corporation's financial performance?

Corporate Social Responsibility (CSR)

The obligation toward society assumed by a business.

- Extent of a business's responsibility for noneconomic concerns has been hotly debated for years.

Triple bottom line considers economic, social, and environmental performance.

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Levels of Corporate Social Responsibility 1

Economic

- To produce goods and services that society wants at a price that perpetuates the business and satisfies its obligations to investors.

Legal

- To obey local, state, federal, and relevant international laws.

Ethical

- Meeting other social expectations, not written as law.

Philanthropic

- Additional behaviors and activities that society finds desirable and that the values of the business support.

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Exhibit 4.7: Pyramid of Global Corporate Social Responsibility and Performance

Be a good global corporate citizen.
Philanthropic responsibility
Do what is *desired* by global stakeholders.
Be ethical.
Ethical responsibility
Do what is *expected* by global stakeholders.
Obey the law.
Legal responsibility
Do what is *required* by global stakeholders.
Be profitable.
Economic responsibility
Do what is *required* by global capitalism.

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Source: Carroll, A. "Managing Ethically with Global Stakeholders: A Present and Future Challenge." *The Academy of Management Executive* 18, no. 2 (2004), 114–120.

Levels of Corporate Social Responsibility 2

Transcendent Education

An education with five higher goals that balance self-interest with responsibility to others.

- Empathy, generativity, mutuality, civil aspiration, intolerance of ineffective humanity.

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Contrasting Views

Managerial Responsibility

Shareholder model says managers are agents of shareholders, and whose primary objective is to maximize profits.

- Adam Smith; Milton Friedman.

Another perspective suggests that managers should be motivated by principled moral reasoning.

- “Sympathy”—a proper regard for others—is the basis of a civilized society.

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Reconciliation

Two Views

- Profit maximization and CSR used to be regarded as leading to opposing policies. But the two views can converge.
- New attention on possible competitive advantage of socially responsible actions.

The U.S. Department of Agriculture and Coca-Cola North America are partnering to restore and protect damaged watersheds in national forests.

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John Konstantaras/AP Images for Coca-Cola

The Natural Environment 1

Sustainable Growth

- A framework for organizations to use in communicating to all stakeholders.
- A planning and strategy guide.
- A tool for evaluating and improving ability to compete.

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The Natural Environment 2

Life-Cycle Analysis (LCA)

A process of analyzing all inputs and outputs, through the entire “cradle-to-grave” life of a product, to determine the total environmental impact of its production and use.

- Quantifies resource use; releases into air, water, and land.
- Considers extraction of raw materials, product packaging, transportation, and disposal.

Solving environmental problems may be one of biggest opportunities in history of commerce.

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Environmental Agendas for the Future

Environmental Agendas

- Most companies used to be oblivious to their negative environmental impact.
- Many now strive for low environmental impact; some even strive for positive impact.
- **Circular economy**: a regenerative, collaborative economic system that contrasts with the linear economy described earlier by minimizing input, waste, emissions, and energy leakage.

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Group Challenge

Ethical Dilemmas

- You are the CEO of a medium-sized firm with plants in the United States and Taiwan. There is a shipment of critical parts held up indefinitely in Taiwan due to a paperwork issue. You learn that if a Customs officer is paid a “facilitation fee,” the shipment will be released. Without these parts your operation will shut down.
- As CEO, what would you do?

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Chapter Review 1

Different ethical perspectives.

- Universalism, egoism, utilitarianism, relativism, virtue ethics.

Business ethics and ethical leadership.

- Sarbanes-Oxley Act.
- Ethics codes, ethics programs: integrity-based, compliance-based.

Ethical decision-making process.

- Moral awareness, moral judgment, moral character.

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Chapter Review 2

Corporate social responsibility.

- Stewardship.
- Triple bottom line.
- Levels of corporate social responsibility: economic, legal, ethical, philanthropic.

The natural environment.

- Sustainable growth and life cycle analysis.
- Environmental agendas for the future.
- Circular economy.

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